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In Our Opinion.....

The Newsletter of the AICPA Audit and Attest Standards Group

Vol. 17 No. 3

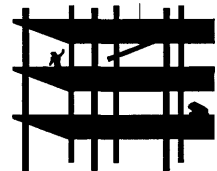
July 2001

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New Framework for the Audit Process

by Susan S. Jones



The Auditing Standards Board (ASB) is reviewing the auditor's consideration of the risk assessment process in the auditing standards, including the necessary understanding of the client's business and the relationships among inherent, control, fraud, and other risks. The ASB expects to issue a series of exposure drafts in late 2001 or early 2002. Some participants in the process expect the final standards to have an effect on the conduct of audits that has not been seen since the "Expectation Gap" standards were issued in 1988.

Background

The audit risk model is the principal framework that has been used to conduct audits during the last 20 years. The model describes a process to reduce the risk of material misstatement in the financial statements to an acceptably low level. Audit risk is the risk that the auditor may issue an unqualified opinion on financial statements that are materially misstated and is composed of three risks: (1) inherent risk—the risk that a material misstatement will arise, (2) control risk—the risk that a material misstatement will remain uncorrected as a result of the entity's control procedures, and (3) detection risk—the risk that the audit will fail to detect the material misstatement.

In 1999, a Joint Working Group (JWG) made up of standards setters and academics from Canada, the United Kingdom, and the United States was formed to investigate recent developments in the audit methodologies of major accounting firms. The research was done to

enable the group to understand changes in the firms' audit methodologies, and to enable standards setters to consider the need for revision of auditing standards to reflect aspects of the new methodologies. In May 2000, the JWG published the results of the research in the report, *Developments in the Audit Methodologies of Large Accounting Firms*.¹

The research indicated that an important trend in the evolution of audit methodologies is a more explicit consideration of the entity's "business risk," which was defined as the risk that the entity will fail to achieve its objectives. This differs from the traditional audit risk model which defines audit risk as the risk of material misstatement of the financial statements. Business risk entails a much broader view of the types of risks to be considered by the auditor and will probably benefit the auditor and the client because—

- A broader consideration of risk is more likely to result in an identification of the problems that may cause misstatement in the financial statements.
- Consideration of the business as a whole enables the auditor to better serve the client by providing opportunities to advise the client on the conduct of the business.

It is important to note that a broader consideration of risk does not mean that financial-statement objectives and the risk of material misstatement have been forgotten. The business-risk approach assumes that there is a relationship between business risk and the traditional concept of audit risk, and that the best way to identify financial-statement risk is to consider this broader concept of risk.

At the same time that the JWG was conducting its research, the Public Oversight Board's Panel on Audit Effectiveness (POB Panel) was conducting its own review and evaluation of the way independent audits are conducted. In the highly publicized report issued in August 2000, *The Panel on Audit Effectiveness, Report and Recommendations*², the POB Panel expressed its conclusion that the audit risk model is appropriate but needs enhancing and updating. In the report, the POB Panel acknowledged the work of the JWG and suggested that the ASB consider the suggestions of the JWG if it concludes that a wider business-risk orientation by auditors improves audit quality.

The ASB Response

In response to the recommendations of the JWG and the POB Panel, the ASB formed the Risk Assessments Task Force. This task force is reviewing the auditor's consideration of the risk-assessment process in an audit of financial statements, including the necessary understanding of the client's business and the relationships among inherent, control, fraud, and other risks. The rather ambitious goal of this task force is to issue a group of exposure drafts in late 2001 or early 2002.

Some of the more important changes to the standards that are expected to be proposed are:

¹ For more information or a copy of the report, phone ABG Professional Information at +44-20-7920-8991 or go to <http://www.abgweb.com>.

² For more information or a copy of the report, write to the Public Oversight Board at One Station Place, Stamford, CT 06902, call 203/353-5300, fax: 203/353-5311 or go to <http://www.pobauditpanel.org>.

- A requirement for a more robust understanding of the entity's business and environment that is more clearly linked to the assessment of the risk of material misstatement of the financial statements. Among other things, this will improve the auditor's assessment of inherent risk and eliminate the "default" to assess inherent risk at the maximum.
- An increased emphasis on the importance of entity controls with clearer guidance on what constitutes a sufficient knowledge of controls to plan the audit.
- A clarification of how the auditor may obtain evidence about the effectiveness of controls in obtaining an understanding of controls.
- A clarification of how the auditor plans and performs auditing procedures differently for higher and lower assessed risks of material misstatement at the assertion level while retaining a "safety net" of procedures.

These changes collectively are intended to improve the guidance on how the auditor operationalizes the audit risk model.

International Convergence

Capital is flowing on a global scale more rapidly than ever, and the flow is likely to accelerate. Participants in the auditing standards-setting process believe that the increased globalization of business eventually will necessitate the use of international auditing standards. In order to serve the public interest, these international standards must be of the highest quality. One route to high quality international auditing standards is the convergence of national and international standards, incorporating the best practices of each of the jurisdictions.

At the same time that the ASB has been working on this project, the International Auditing Practices Committee (IAPC) has been working on a similar project. Both the ASB and the IAPC recognized this opportunity to push U.S. and international auditing standards toward convergence. As a result, the two standards-setters have been working in tandem on the projects, with a great deal of cooperation, discussion, and sharing of information. Although there are likely to be some differences between the final U.S. and international standards, it is hoped that the resulting U.S. and international auditing standards will provide auditors in the United States and overseas with similar guidance, and set forth similar basic principles and essential procedures.

What This Means for the Auditor

The ASB believes this new audit approach will result in many benefits to the auditor. Among those benefits are:

- *Audit effectiveness.* A broader focus on business risk and a more robust understanding of the business is likely to result in a more thorough identification of inherent risk that may affect the financial statements. Similarly, an increased focus on controls that the entity has in place is likely to result in a more thorough identification of control risk that may affect the financial statements.

- *Audit efficiency.* A more robust assessment of the risk of material misstatement of the financial statements should result in auditors focusing their attention on the sources and consequences of those risks, and at the same time, avoid overauditing in areas of low risk.
- *Client service.* A greater emphasis on the client's business risk enables the auditor to add value to the audit from the client's perspective. The audit can provide insight and information that is valuable to the entity's management in its goal to successfully manage the business. This provides the auditor with the opportunity to differentiate his or her firm's audit from those offered by competitors.

New Audit Guide, *Auditing Revenue in Certain Industries*

by Julie Anne Dilley



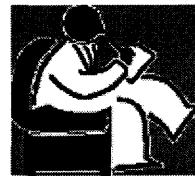
A new AICPA Audit Guide *Auditing Revenue in Certain Industries* (Guide) will be available in early August. The Guide was developed in response to heightened concern in recent years that improper revenue recognition has contributed to a perceived erosion in the integrity of the financial reporting process.

The Guide is intended to help auditors fulfill their professional responsibilities with regard to auditing assertions about revenue, and includes guidance on selected industries that are not covered by other AICPA Audit and Accounting Guides. The Guide—

- Discusses the responsibilities of management, boards of directors, and audit committees for reliable financial reporting.
- Summarizes key accounting guidance regarding whether and when revenue should be recognized in accordance with generally accepted accounting principles.
- Identifies circumstances and transactions that may signal improper revenue recognition.
- Summarizes key aspects of the auditor's responsibility to plan and perform an audit under generally accepted auditing standards.
- Describes procedures that the auditor may find effective in limiting audit risk arising from improper revenue recognition.
- Provides guidance on auditing revenue transactions in the computer software and high-technology manufacturing industries.

The Guide was developed under the supervision of the Auditing Revenues Steering Task Force with significant contributions from industry experts in various audit firms. To obtain a copy of the Guide, see the ordering information on page 16 and request product number 012510.

Exposure Draft on Audit Documentation



The Auditing Standards Board has issued an exposure draft of a proposed Statement on Auditing Standards and Statement on Standards for Attestation Engagements (SAS/SSAE) titled *Audit Documentation* that would replace SAS No. 41, *Working Papers*, amend several other SASs, and amend the attestation standards to reflect the concepts and terminology in the proposed SAS/SSAE.

The proposed SAS/SSAE provides an updated framework within which the auditor can exercise professional judgment in determining the nature and extent of audit documentation needed to comply with professional standards. The proposed standard—

- Uses the term *audit documentation* in place of *working papers*.
- Reminds auditors that inspection procedures, as described in Statement on Quality Control Standards No. 3, *Monitoring a CPA Firm's Accounting and Auditing Practice*, may be used to evaluate the extent of a firm's compliance with its quality control policies and procedures and that review of audit documentation is an inspection procedure.
- Incorporates the current requirement in SAS No. 22, *Planning and Supervision*, for a written audit program (or set of audit programs) for every audit.
- Introduces the concept that audit documentation should (a) enable a reviewer with relevant knowledge and experience to understand from the information contained therein the nature, timing, extent, and results of auditing procedures performed, and the evidence obtained, and (b) indicate the engagement team member(s) who performed and reviewed the work.
- Lists factors that the auditor should consider in determining the nature and extent of the audit documentation to be prepared for a particular audit area or auditing procedure.
- For auditing procedures that involve inspection of documents or confirmation of balances, requires audit documentation to include an identification of the items tested and, where appropriate, abstracts or copies of documents such as significant contracts or agreements. (In a current standards-setting project, the ASB is considering documentation requirements for other types of auditing procedures.)
- Requires documentation of audit findings or issues that in the auditor's judgment are significant, actions taken to address them, and the basis for the conclusions reached. The proposed SAS/SSAE includes a list of types of significant audit findings and issues.
- Requires the auditor to adopt reasonable procedures to prevent unauthorized access to the audit documentation.

This exposure draft has a 60-day comment period that ends on August 27, 2001. To download the exposure draft as a PDF file, see the instructions at the end of the file at the following URL <http://www.aicpa.org/members/div/auditstd/engagements.htm>

SOP for Insurance Companies Subject to the New York Derivative Law

by Judith M. Sherinsky

The Auditing Standards Board (ASB) has issued Statement of Position (SOP) 01-3, *Performing Agreed-Upon Procedures Engagements That Address Internal Control Over Derivative Transactions as Required by the New York State Insurance Law*. The SOP was developed by an ASB task force chaired by Albert J. Reznicek, and provides guidance to practitioners on performing an agreed-upon procedures engagement that enables insurance companies to meet the requirements of the New York Derivative Law (the Law) which amends Article 14 of the State of New York Insurance Law. The Law requires insurers who enter into derivative transactions to file with the Insurance Department a statement describing an independent CPA's assessment of the insurance company's internal control over derivative transactions. This assessment is considered part of the evaluation of internal control prescribed by section 307(b) of the New York Insurance Law. An assessment is required regardless of whether the derivative transactions are material to the insurer's financial statements.

The assessment was due by June 1, 2001; however, provision has been made for late filing. If a company was unable to complete the assessment by the due date, the insurer should attach that information and the date the insurance company expects to submit the required filing to the Section 307(b) filing (the filing of the insurance company's audited financial statements). Any action by the Department regarding the late filing will be subsequently determined. To obtain a copy of the SOP, see the ordering information on page 16 and request product number 014930.

Lynn E. Turner, Chief Accountant, To Leave the SEC

On July 26, 2001, Lynn E. Turner, Chief Accountant, U.S. Securities and Exchange Commission (SEC), announced that he will be leaving the SEC in August. He will join the faculty at Colorado State University where he also will be the Director of the Center for Quality Financial Reporting. Mr. Turner has been the Chief Accountant for the SEC since July 1998. For additional information about Mr. Turner's background and work at the SEC, see the article on the SEC Web site at <http://www.sec.gov/news/headlines/turnerleaves.htm>.

The Gramm-Leach-Bliley Act and the Independent Auditor

The Gramm-Leach-Bliley Act, enacted in November 1999, requires financial institutions to maintain the privacy of their customers' nonpublic personal information and disclose to customers its policies regarding that information. Examples of financial institutions covered by the law are banks, savings institutions, credit unions, securities firms, and insurance companies. Regulations that enable these organizations to carry out the privacy provisions of the law became effective on November 13, 2000 and applicable financial institutions must be in full compliance by July 1, 2001.

The objective of these requirements is to prevent financial institutions from disclosing to a nonaffiliated third party any nonpublic personal information unless the financial institution provides the customer with an appropriate notice or offers the customer the ability to opt out of having the disclosure made. The law provides several general exceptions to this prohibition, including disclosure of nonpublic personal information to the institution's accountants and auditors. Thus the law does not preclude an independent auditor from obtaining the information necessary to conduct the audit [Section 502(e)(4) of the Act].

Other exemptions in the law include—

- Disclosure to self-regulatory organizations, which would appear to include the AICPA or state CPA societies that administer peer reviews [Section 502(e)(5) of the Act].
- Disclosure to comply with laws and other applicable legal requirements, which would appear to include mandatory peer reviews required under state accountancy laws and regulations [Section 502(e)(8) of the Act].

Auditors are reminded of their duties under state laws and professional standards to maintain the confidentiality of client information, including nonpublic personal information obtained in conducting an audit. Other services provided by CPA firms such as consulting and advisory services are not covered by the general exception for audit and accounting services. The law also contains exemptions for certain other services; however, if a firm provides these services to a financial institution, it may be asked to sign a confidentiality agreement concerning the nondisclosure of nonpublic personal information. Although the Act does not require a financial institution to obtain a confidentiality agreement from its auditors, many financial institutions are asking all third parties that have access to nonpublic personal information of its customers to sign such agreements. If a practitioner is asked to sign such an agreement, he or she should ensure that the agreement allows for the disclosure of information received for purposes of peer review.

The Gramm-Leach-Bliley Act (Public Law 106-102) can be accessed at <http://thomas.loc.gov> and additional information about the effect of the Act on CPAs can be found on the AICPA's Web site at <http://www.aicpa.org/index.htm> under the section "News for CPAs" and the title "Practice Guide on FTC Privacy/Disclosure Rules." Also, the AICPA's SEC Practice Section has included guidance addressing the effect of the Act on peer review at

<http://www.aicpa.org/members/div/secps/glbact.htm>. Readers who have additional questions about the Act and related regulations should consult their attorneys.

Highlights of Technical Activities

The Auditing Standards Board (ASB) performs its work through task forces composed of members of the ASB and others with technical expertise in the subject matter of the projects. The findings of these task forces periodically are presented to the members of the ASB for their review and discussion. Listed below are the current task forces of the ASB and brief summaries of their objectives and activities.

Task Forces of the ASB

Audit Documentation Task Force (Staff Liaison: Gretchen Fischbach; Task Force Chair: W. Scott McDonald). This task force has developed revised guidance regarding the objective, nature, and extent of audit documentation required for compliance with generally accepted auditing standards in a financial statement audit. For additional information about this project, see the article on page 5, “Exposure Draft on Audit Documentation.”

Audit Issues Task Force (Staff Liaison: Gretchen Fischbach; Task Force Chair: James S. Gerson). This task force meets on a monthly basis to (1) oversee the Auditing Standard Board’s (ASB) planning process, (2) evaluate technical issues raised by various constituencies and determine their appropriate disposition, including referral to an ASB task force or development of an interpretation or other guidance, (3) address emerging audit and attestation practice issues, (4) provide advice on ASB task force objectives and composition, and monitor the progress of task forces, and (5) assist the ASB Chair and the Audit and Attest Standards staff in carrying out their functions, including liaison with other groups.

Auditing Revenues Steering Task Force (Staff Liaison: Julie Anne Dilley; Task Force Chair: Robert C. Steiner). This task force has developed an audit guide to help auditors fulfill their professional responsibilities with regard to auditing assertions about revenue in selected industries not covered by other AICPA Audit and Accounting Guides. For additional information about this project, see the article on page 4, “New Audit Guide, *Auditing Revenue in Certain Industries*.”

FASB 140 Audit Issues Task Force (Staff Liaison: Julie Anne Dilley; Task Force Chair: Tracey Golden). The task force is developing auditing guidance that addresses the use of legal interpretations as evidential matter for transfers of financial assets by banks and other financial institutions subject to possible receivership under the Federal Deposit Insurance Corporation (FDIC) (and by other affected entities that previously have considered their transfers of financial assets in “single-step” securitizations to have isolated those assets in circumstances similar to those of entities subject to possible FDIC receivership). One of the criteria for a transfer of financial assets to be accounted for as a sale under Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, is that the transferred assets have been isolated from the transferor and its creditors,

even in bankruptcy or other receivership. In April 2001, the staff of the Financial Accounting Standards Board (FASB) prepared a set of questions and answers to clarify the application of certain guidance in FASB Statement No. 140 with respect to such transfers. On July 23, 2001 the FASB issued FASB Technical Bulletin 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*, that delays the effective date for applying the guidance in the questions and answers until December 31, 2001, and provides additional transition guidance. The task force anticipates issuing a revised interpretation sometime in the third quarter of 2001 that will be effective with the delayed implementation date of the related FASB guidance for FDIC-insured entities.

Fraud Task Force (Staff Liaison: Kim M. Gibson; Task Force Chair: David L. Landsittel). The task force is revising SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*, to address recommendations and findings of—

- The Public Oversight Board's Panel on Audit Effectiveness regarding earnings management and fraud
- The ASB's Fraud Standard Steering Task Force
- Academic research on the effectiveness of SAS No. 82
- Other financial reporting stakeholders.

At the September 2001 ASB meeting, the task force will present a draft of a proposed SAS that will amend or replace SAS No. 82. The task force includes representatives of the International Auditing Practices Committee who, in addition to participating in the task force, are considering revisions to recently issued International Statement on Auditing Standards 240, *The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements*. Judith M. Sherinsky is temporarily staffing this task force.

GAAS Hierarchy (Staff Liaison: Jane M. Mancino; Task Force Chair: Thomas Ray). This task force has been evaluating the need for a hierarchy of auditing guidance. An exposure draft of a proposed SAS titled *Generally Accepted Auditing Standards* was issued in early May 2001; the comment period ended on July 5, 2001. At its September meeting, the ASB will discuss the comments received on the exposure draft.

International Auditing Standards Subcommittee (Staff Liaison: Susan S. Jones; Subcommittee Chair: John Archambault). The ASB created this subcommittee to support the development of international standards. Subcommittee activities include providing technical advice and support to the AICPA representative and technical advisors to the International Auditing Practices Committee, commenting on exposure drafts of international assurance standards, participating in and identifying U.S. volunteer participants for international standards-setting projects, identifying opportunities for establishing joint standards with other standards setters, identifying international issues that affect auditing and attestation standards and practices, and assisting the ASB and other AICPA committees in developing and implementing AICPA international strategies.

Investment Performance Statistics Task Force (Staff Liaison: Jane M. Mancino; Task Force Chair: James S. Gerson). This task force is drafting an auditing statement of position that

provides performance and reporting guidance on examination engagements on investment performance conducted in accordance with the revised performance presentation standards established by the Association for Investment Management and Research (AIMR). The guidance will supersede the two existing notices to practitioners on this subject. In January 2001, the task force provided AIMR with a comment letter on the proposed new AIMR-Performance Presentation Standards; those standards were finalized in May 2001 and are available on the AIMR Web site at www.aimr.org

Joint Quality Control Standards Task Force (Staff Liaison: Judith M. Sherinsky; Task Force Chair: Craig W. Crawford). This joint task force consists of representatives of the AICPA's ASB, Peer Review Board, Quality Control Inquiry Committee, and SEC Practice Section Peer Review Committee. The task force considers matters related to Statements on Quality Control Standards to determine whether amendment, interpretation, supplementary guidance, or additional standards are needed. The task force will meet on August 13, 2001 in New York.

Legal Inquiry Letters Reeducation Task Force (Staff Liaison: Gretchen Fischbach; Task Force Chair: Dorsey Baskin). This joint task force composed of representatives of the AICPA and the American Bar Association was established to address concerns regarding language used by attorneys when responding to audit inquiry letters.

Nonfinancial Information Task Force (Staff Liaison: Susan S. Jones, Task Force Chair: Alan Paulus). This task force is investigating how an auditor could report on nonfinancial information, or other information that is not a product of the entity's accounting system, when such information is included in or with an entity's financial statements. For the purpose of deliberation on the reporting mechanism, the task force will assume that standard setters have established criteria for this information so that practitioners may attest to it.

The task force currently is considering guidance that would clarify the auditor's ability to report on information accompanying the financial statements, whether that information is required by the financial reporting framework or voluntarily disclosed by the reporting entity. This guidance may take the form of an interpretation or a revision of the auditing standards. The task force also will consider issues associated with reporting on nonfinancial information, such as the suitability of criteria against which the information is measured, the nature of appropriate procedures for auditing the information, the relationship between internal control assessments and nonfinancial information, the need to use specialists, the concept of materiality as it relates to nonfinancial information, and how to clearly report on the information.

Risk Assessments Task Force (Staff Liaison: Julie Anne Dilley; Task Force Chair: John A. Fogarty, Jr.). This task force is reviewing the auditor's consideration of the risk assessment process in generally accepted auditing standards (GAAS), including the necessary understanding of the client's business and the relationships among inherent, control, fraud, and other risks. Expected deliverables from the project are—

- A new framework describing the audit process. This framework likely will be presented in a new standard that provides an overview of the fieldwork standards. It will include a description of the audit risk model and its application.

- A new standard on obtaining an understanding of the entity and its environment to assess the risk of material misstatement of the financial statements and to determine the nature, timing, and extent of auditing procedures to be performed.
- Guidance on the auditor's consideration of inherent risk, including a description of the basis for assessing inherent risk. This guidance probably will be included in the proposed standard on obtaining an understanding of the entity and its environment.
- New standards that will supersede existing guidance on planning and supervision, and on internal control.
- Nonauthoritative guidance to assist the auditor in understanding the business and applying the audit risk model.

The task force is considering the findings and recommendations of the Panel on Audit Effectiveness and the Joint Working Group. The task force also is working with the IAPC toward harmonizing U.S. and international GAAS related to risk assessment since a similar project has been undertaken by the IAPC.

SAS No. 70 Task Force (Staff Liaison: Judith M. Sherinsky, Task Force Chair: George H. Tucker). The task force has revised the Auditing Procedure Study, *Service Organizations*. The revised document will be issued as an audit guide and will include illustrative control objectives for various types of service organizations, as well as two new interpretations that address the responsibilities of service organizations and service auditors with respect to forward-looking information and subsequent events. The guide also clarifies that the use of a SAS No. 70 report should be restricted to *existing* customers and is not meant for *potential* customers. The Audit Issues Task Force will review the interpretations at its August 2001 meeting.

SAS No. 71 Task Force (Staff Liaison: Judith M. Sherinsky, Task Force Chair: Richard Dieter). The task force is revising SAS No. 71, *Interim Financial Information*, in response to certain recommendations in "The Panel on Audit Effectiveness Report and Recommendations - August 31, 2001" issued by the Public Oversight Board www.pobauditpanel.org/ and Practice Alert 2000-4, "Quarterly Review Procedures for Public Companies" issued by the AICPA's Professional Issues Task Force www.aicpa.org/pubs/cpaltr/oct2000/supps/palert1.htm. At its July 2001 meeting, the ASB discussed issues such as whether a SAS No. 71 review should continue to consist of inquiries and analytical procedures, how inquiry and analytical procedures could be modified to address risk, whether interim reviews should be viewed as part of the annual audit or as separate engagements, and the accountant's responsibility, if any, for considering the going-concern status of an entity in an interim review engagement. The task force will meet in September 2001 to continue its deliberations.

Sustainability Task Force (Staff Liaison: Jane M. Mancino; Task Force Chair: Beth A. Schneider). This joint task force of the AICPA's ASB and Assurance Services Executive Committee and the Canadian Institute of Chartered Accountants' Assurance Services Development Board is charged with developing a marketable assurance service on sustainability reporting, and participating with other organizations in the development of suitable criteria for the preparation of such reports. Sustainability reports are issued by companies to explain their economic, environmental, and social performance in the context of their business activities. Practitioners are beginning to receive requests from preparers to report on their sustainability

reports. Such requests may be driven by users seeking assurance on such information or a desire by preparers to add more credibility to the information they are reporting. Such presentations are more common in Europe but are now being issued by some major U.S. corporations. The Global Reporting Initiative (GRI) of Boston, MA has developed initial guidelines for sustainability reporting to be used globally and is continuing to further develop these guidelines. A working group of the GRI has developed proposed principles for "verification" of sustainability reports. It is expected that verifications will be performed by different types of assurance providers, which may include public accounting firms, consulting firms, engineering firms, specialty or boutique firms, academics, and other individuals with suitable credentials. The task force is currently drafting a comment letter on the proposed principles for verification.

Technology Issues Task Force (Staff Liaison: Judith M. Sherinsky; Task Force Chair: George H. Tucker). The May 2001 issuance of SAS No. 94, *The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit*, amended SAS No. 55, *Consideration of Internal Control in a Financial Statement Audit*, to reflect the effect of information technology on internal control and on the auditor's understanding of internal control and assessment of control risk. The task force will be updating the exhibits and case study in the AICPA Audit Guide, *Consideration of Internal Control in a Financial Statement Audit*, to reflect the changes introduced by SAS No.94.

Tests of Assertions Task Force (Staff Liaison: Gretchen Fischbach; Task Force U.S. Co-Chair: Bruce P. Webb). This joint task force composed of members of the ASB, the IAPC, and a representative of the academic community, is developing a proposed SAS that will provide improved guidance on how to use the results of risk assessment to determine the nature, timing, and extent of tests of financial-statement assertions. The task force also will revise the guidance related to assertions and evidence that is currently in SAS No. 31, *Evidential Matter*. In developing its guidance, the task force will use the work of the ASB's Risk Assessment Task Force and the IAPC's Audit Risk Subcommittee. The task force has discussed issues related to the project and will begin considering draft guidance at its August meeting. The ASB expects to issue an exposure draft for this project at approximately the same time as the Fraud Task Force and the Risk Assessments Task Force, which also are working on risk-related projects. The Tests of Assertions Task Force will work very closely with these two task forces to ensure consistency of the guidance produced by the three task forces.

Other Task Forces and Committees

Accounting and Review Services Committee (ARSC) (Staff Liaison: Kim M. Gibson; Committee Chair: Diane S. Conant). The ARSC met in April 2001 and discussed the accountant's reporting responsibilities when he or she is in public practice and performs management functions for a client, such as serving as the client's controller. The ARSC may issue an interpretation on this subject and will continue its deliberations at its August 2001 meeting. Susan S. Jones is temporarily staffing this committee.

International Auditing Practices Committee (IAPC) (U.S. Member: Edmund R. Noonan; U.S. Technical Advisors: Susan S. Jones and John Archambault). In June 2001, the IAPC voted to issue a new International Standard on Auditing (ISA), revising ISA 700, *The Auditor's Report on Financial Statements*, to require auditors to state which financial reporting framework has been used to prepare the audited financial statements. In June, the IAPC also voted to issue four new International Auditing Practices Statements (IAPSs) providing guidance to the auditor in various information technology environments. The IAPC plans to expose two more ISAs in October, one on auditing fair value information and the other on e-commerce. In addition, the IAPC plans to expose two IAPSs in October, one on audits of banks and the other on the relationship between the bank's external auditor and the banking supervisor.

The IAPC is working jointly, or in tandem with the ASB on two projects to update and enhance the audit risk model. Other projects of the IAPC include quality control standards, consolidated financial statements, and fraud. All of these projects may result in new standards or other forms of guidance. An analysis comparing the International Standards on Auditing with the SASs that identifies instances in which the ISAs specify procedures not specified by U.S. auditing standards is included in Appendix B of the *Codification of Statements on Auditing Standards*.

Trust Family of Services Task Force (Staff Liaison: Karyn M. Waller; Task Force Chairs: Thomas Wallace and Chris Leach). This joint task force of the AICPA and the Canadian Institute of Chartered Accountants is harmonizing the SysTrust™ and Web Trust services to eliminate any unnecessary inconsistencies and to make the services more understandable to potential users. Each of the services will retain its own branding. SysTrust is an engagement in which a practitioner reports on the effectiveness of an entity's controls in meeting the SysTrust criteria, which relate to system reliability. The criteria address the availability, security, integrity, and maintainability of a system. WebTrust is a service in which a practitioner reports on an entity's disclosure of its business practices, and the effectiveness of its controls related to electronic commerce. The WebTrust program is modular in design so that a practitioner may report on various aspects of a Web site based on criteria established for on-line privacy, confidentiality, availability, business practices/transaction integrity, security, non-repudiation, and certification authorities. Judith M. Sherinsky assists the task force with matters related to professional standards.

Recently Issued and Approved Documents

Title (Product Number)	Issue Date	Effective Date
Statements on Auditing Standards (SASs)		
SAS No. 94, <i>The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit</i> (060696)	May 2001	Effective for audits of financial statements for periods beginning on or after June 1, 2001. Earlier application is permitted.
SAS No. 93, <i>Omnibus Statement on Auditing Standards— 2000</i> (060695)	October 2000	<p>This SAS contains three sections, each with its own effective date.</p> <p><u>Withdrawal of SAS No. 75</u> Effective for agreed-upon procedures engagements for which the subject matter or assertion is as of or for a period ending on or after June 1, 2001.</p> <p><u>Amendment to SAS No. 58</u> Effective for reports issued or reissued on or after June 30, 2001. Earlier application is permitted.</p> <p><u>Amendment to SAS No. 84</u> Effective for audits of financial statements for periods ending on or after June 30, 2001. Earlier application is permitted.</p>
SAS No. 92, <i>Auditing Derivative Instruments, Hedging Activities, and Investments in Securities</i> (060694)	September 2000	Effective for audits of financial statements for fiscal years ending on or after June 30, 2001. Early application is permitted.
Statements on Standards for Attestation Engagements (SSAEs)		
SSAE No. 10, <i>Attestation Standards: Revision and Recodification</i> (023029)	February 2001	Effective when the subject matter or assertion is as of or for a period ending on or after June 1, 2001. Early application is permitted.

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Recently Issued and Approved Documents

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Title (Product Number)	Issue Date	Effective Date
Interpretations of SASs		
<p>Interpretations of SAS No. 47, <i>Audit Risk and Materiality in Conducting an Audit</i>, (AU sec. 312)</p> <ul style="list-style-type: none"> • Interpretation No.1, “The Meaning of the Term <i>Misstatement</i>” • Interpretation No. 2, “Evaluating Differences in Estimates” • Interpretation No. 3, “Quantitative Measures of Materiality in Evaluating Audit Findings” • Interpretation No. 4, “Considering the Qualitative Characteristics of Misstatements” 	December 2000	<p>Interpretations of audit and attestation standards are effective upon issuance in the <i>Journal of Accountancy</i>.</p>
Statements of Position		
Statement of Position 01-3, <i>Performing Agreed-Upon Procedures Engagements That Address Internal Control Over Derivative Transactions as Required by the New York State Insurance Law</i> (014930)	June 15, 2001	Effective upon issuance
AICPA Audit Guides		
<i>Analytical Procedures</i> (012551)	June 1, 2001	
<i>Auditing Revenue in Certain Industries</i> (012510)	June 1, 2001	
<i>Audit Sampling</i> (012530)	April 1, 2001	
<i>Auditing Derivative Instruments, Hedging Activities, and Investments in Securities</i> (012520)	March 15, 2001	

Projected Auditing Standards Board Agenda

Codes: DI- Discussion of issues, DD - Discussion of draft document, ED-Vote to ballot a document for exposure, EP-Exposure Period, CL- Discussion of comment letters, FI- Vote to ballot a document for final issuance, SU- Status Update

	ASB Meeting Dates and Locations		
	July 24-25, 2001	September 11-13, 2001	October 16-17, 2001
Project	New York, NY	New York, NY	New York, NY
Audit Documentation	EP		
Fraud		DD	DD
GAAS Hierarchy		CL	FI
Tests of Assertions	DI	DI	DI
Risk Assessment	DD	DD	DD

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